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Small benefit from country size

Kazuto Masuda
Bank of Japan

Abstract

Furceri and Karras(2007, 2008) insisted that smaller countries are subject to more volatile business cycles than larger countries and country size really matters, using annual and quarterly data from 1960 to 2000. They measure country size with population size. In this paper, we calculate welfare benefit from the less volatile business cycle, that is the positive effect of country size in Japan, US and OECD average. For welfare measure, we choose “Welfare Cost of Business Cycle” approach following Obstfeld(1994). Our simple calculation shows that even if Fuerce and Karras (2007, 2008) is right, welfare benefit from country size is small, far less than 1% in terms of level of consumption. Therefore, we conclude that practically, population size does not bring a significant effect on welfare both in a short run and long run, as long as focusing on the severity of business cycle.

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Kazuto Masuda

Bank of Japan

kazuto.masuda@boj.or.jp

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